

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 SS-15 SP-02 H-01 EB-08 INR-10
EUR-12 PA-01 NSC-05 CIAE-00 TRSE-00 CEA-01 STR-07
OMB-01 COME-00 DOE-15 SOE-02 /093 W
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R 110616Z JUL 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC 9489
INFO AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY OTTAWA
AMEMBASSY ROME

C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 12516

USEEC ALSO FOR AMEMBASSY

USMTN ALSO FOR USMISSION

E.O. 11652: GDS
TAGS: ECON, EFIN, JA, ENRG
SUBJECT: JAPAN APPROACHES THE BONN ECONOMIC SUMMIT

REF: TOKYO 12467

1. BEGIN SUMMARY: IN THE EMBASSY'S VIEW JAPAN IS HEADING FOR THE SUMMIT WITH MORE OF A FEELING OF SELF-CONFIDENCE THAN HAS BEEN THE CASE IN RECENT MONTHS AND AT PREVIOUS SUMMITS. TRADITIONALLY JAPAN HAS FEARED HEAVY PRESSURE FROM THE EUROPEAN SUMMIT POWERS AND HAS BEEN UNCERTAIN ABOUT HOW THE U.S. WILL REACT. THIS TIME DESPITE THE CONTINUED LARGE CURRENT ACCOUNT SURPLUS JAPAN FEELS ITS RECORD ON GROWTH IS GOOD, AND THAT THE FAILURE OF THE
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CURRENT ACCOUNT SURPLUS TO DECLINE CAN BE SHOWN TO BE CAUSED SUBSTANTIALLY BY FACTORS JAPAN CANNOT CONTROL SUCH AS U.S. INFLATION. JAPAN IS UNLIKELY, BECAUSE SHE IS UNABLE TO TAKE ANY MAJOR INTERNATIONAL MONETARY INITIATIVES AND MUST THEREFORE CONFINE HERSELF TO EXPRESSIONS OF HOPE THAT U.S. WILL RECOGNIZE ITS RESPONSIBILITIES FOR CONTRIBUTING TO STABILITY. ON TRADE AND PROTECTIONISM WE FEEL

JAPAN WILL MAKE A CAREFUL CALIBRATED ATTEMPT TO BE FORTHCOMING ON MTNS THIS WEEK. ON NORTH-SOUTH ISSUES GOVERNMENT IS THIS WEEK STRUGGLING TO COME UP WITH FORWARD LOOKING POLICY FOR ANNOUNCEMENT AT BONN.

2. ALL IN ALL, JAPAN ANTICIPATES ATMOSPHERE AT BONN IN WHICH ITS RELATIVE POWER IN THE WORLD WILL BE MORE ACCURATELY REFLECTED THAN HAS BEEN THE CASE AT PREVIOUS SUMMITS AND MUTUALITY OF PARTICIPANTS' INTERESTS AND ACTIONS WILL BE MORE CLEARLY VISIBLE. WE RECOMMEND THAT U.S. REPRESENTATIVES KEEP REMINDING JAPAN OF ITS RESPONSIBILITIES AS MAJOR ECONOMIC POWER, RESPONSIBILITIES THAT ARE IN NO WAY LESSENED BECAUSE U.S. ALSO HAS HEAVY RESPONSIBILITIES REGARDING ENERGY AND INFLATION. END SUMMARY.

3. JAPAN APPROACHES THE BONN SUMMIT WITH A CONSIDERABLY LESS DEFENSIVE ATTITUDE THAN MIGHT BE EXPECTED. SHE FEELS THAT EVENTS OF RECENT MONTHS HAVE ESTABLISHED THAT JAPAN IS PERFORMING AT LEAST AS WELL AS OTHER PARTICIPANT NATIONS. IN THE FIELD OF GROWTH, IN PARTICULAR, FUKUDA WILL EXUDE CONFIDENCE ABOUT JAPAN'S ATTAINING ITS SEVEN PERCENT TARGET. HE WILL PROBABLY BE ABLE TO OVERCOME FINANCE MINISTRY RELUCTANCE TO ANNOUNCE THAT A SUPPLEMENTARY BUDGET CAN BE MOVED INTO POSITION IF NEEDED TO ASSURE TARGET IS OBTAINED. THERE CONTINUES TO BE HONEST DISAGREEMENT ABOUT WHETHER JAPAN'S ECONOMY IS ON A PATH
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THAT WILL REACH SEVEN PERCENT. INDUSTRIALISTS AND MITI ARE BY NATURE MORE PESSIMISTIC AND ARE RELUCTANT TO TAKE ANY CHANCES WHEN A SUPPLEMENTARY BUDGET COULD COME CLOSER TO GUARANTEEING THAT THE TARGET WILL BE REACHED. EPA AND FINANCE MINISTRY SEE THE INDICATORS WORKING THROUGH TO PRODUCE SOMETHING VERY CLOSE TO SEVEN PERCENT.

4. HAVING BEEN TOLD BY THE WORLD THAT REACHING AN AMBITIOUS GROWTH TARGET WAS CENTRAL TO ACHIEVING ADJUSTMENT IN CURRENT ACCOUNT SURPLUS, AND HAVING SEEN THE YEN APPRECIATE FROM THE 290 RANGE TO THE 200 RANGE IN THE PAST YEAR AND A HALF, PLANNERS ARE TAKING "WAIT AND SEE" ATTITUDE. EPA MINISTER MIYAZAWA IS BEING WIDELY QUOTED AS HAVING TOLD ECONOMIC MINISTERS "LAWS OF ECONOMICS DO NOT CHANGE" AND THAT CURRENT ACCOUNT TRENDS ARE SURE TO SHIFT SOON. IN ADDITION, HOWEVER, GOJ CAN POINT TO RESTRAINT IT IS EXERCISING ON AUTO, COLOR TV, AND STEEL EXPORTS AND TO ITS EMERGENCY IMPORT PROGRAMS. NUMBERS ATTACHED TO EMERGENCY IMPORT PLANS WILL RUN IN THE BILLIONS. JAPAN WILL STRESS THAT PHYSICAL VOLUME OF EXPORTS (IN TERMS OF YEN) HAVE NOT INCREASED MUCH AND THAT EXCHANGE RATE CHANGES ARE LARGELY RESPONSIBLE FOR RISING DOLLAR

VALUE OF EXPORTS. BY THE SAME TOKEN RISING IMPORT VOLUMES
ARE MASKED BY LOWER DOLLAR PRICES. IT MUST BE RECOGNIZED
THAT EMERGENCY IMPORT PROGRAMS HAVE NOT YET HAD ANY MAJOR
IMPACT ON THE NUMBERS. JAPANESE BUREAUCRATS CONTINUE TO
BEAT THE BUSHES FOR NEW IDEAS ABOUT WHAT MIGHT BE IMPORTED
BUT STRUCTURAL PROBLEMS IN THE HEAVY INDUSTRY SECTOR
MILITATE AGAINST ANY DRAMATIC GENERAL INCREASE IN DEMAND
FOR IMPORTS. THE BENEFITS OF THE STRONG YEN HAVE NOT YET
BEEN WIDELY PASSED ON TO THE ULTIMATE CONSUMER AT LEAST
IN THE FORM OF ACTUAL PRICE REDUCTIONS. RESTRAINTS TO
PRICE CUTTING SEEMS QUITE WIDESPREAD FOR ALMOST ALL

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C O N F I D E N T I A L SECTION 02 OF 02 TOKYO 12516

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COMMODITIES.

5. REGARDING TRADE AND PROTECTIONISM JAPAN IS RELYING ON
THE "CRUNCH" ATMOSPHERE IN GENEVA IN THE WEEK PRIOR TO
BONN. EMBASSY MAKES NO PREDICTIONS ABOUT FINAL OUTCOME OF
THAT EFFORT. JAPAN RECOGNIZES IMPORTANCE OF SUCCESSFUL
CONCLUSION OF TOKYO ROUND BUT IT IS NOT IN THE STYLE OF
JAPANESE NEGOTIATORS TO MAKE DRAMATIC CONCESSIONS WITHOUT
CLEAR EVIDENCE OF CONCESSIONS FROM NEGOTIATING PARTNERS

AND EVEN THEN WILL WAIT TILL THE LAST MINUTE. IF MTN
ISSUES ARE NOT RESOLVED BEFORE BONN, FUKUDA MAY BE ABLE TO
GIVE A BIT MORE THERE UNDER RESOLUTE PRESSURE FROM U.S.
BUT WE WOULD BE WELL ADVISED NOT TO RAISE ANY NEW MTN GAM-
BITS WHICH GOJ DECISION MAKING STRUCTURE HAS NOT YET
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ADDRESSED.

6. ON INTERNATIONAL MONETARY ISSUES, JAPAN SEES HERSELF
AS HEAVILY DEPENDENT ON U.S. ACTIONS. STRENGTHENING
OF YEN TO 200 LEVEL HAS BEEN RECEIVED MORE CALMLY
THAN THE MOVE TO 220 A FEW MONTHS AGO. JAPAN'S
INDUSTRY SEEMS LESS NERVOUS, APPARENTLY SEEING CONTINUED
SATISFACTORY DEMAND FOR ITS LEADING PRODUCTS. JAPAN WILL
BE INTERESTED OBSERVER OF OUR REACTIONS TO EUROPEAN
MONETARY INITIATIVES AND WILL DOUBTLESS REMIND
US OF OUR RESPONSIBILITIES FOR STABILIZING WORLD CURRENCY
RELATIONSHIPS.

7. ON ENERGY JAPAN FEELS ITS RECORD WILL STAND UP TO
INTERNATIONAL SCRUTINY DESPITE THE FACT THAT IN REALITY
RECENT USAGE PATTERNS SEEM TO BE CONTROLLED MORE BY
SLUGGISHNESS OF JAPANESE ECONOMY THAN TO ANY SPECIFIC
CONSERVATION MEASURES. HERE AGAIN COST OF WORLD MARKET
PETROLEUM HAS GONE DOWN SUBSTANTIALLY IN YEN TERMS AND,
ALTHOUGH LITTLE OF THIS HAS BEEN PASSED THROUGH TO
ULTIMATE CONSUMERS JAPAN IS FEELING LESS OF A CRUNCH FROM
ITS HEAVY DEPENDENCE ON FOREIGN OIL.

8. ON NORTH-SOUTH ISSUES ATTENTION OF DECISION MAKING
APPARATUS THIS WEEK APPEARS TO BE CONCENTRATING ON HOW TO
SPECIFY DETAILS OF JAPAN'S COMMITMENT TO DOUBLE AID IN
THREE YEARS. WE DO NOT EXPECT ANY SURPRISES ON
COMMON FUND AND STABEX UNLESS THERE IS A MAJOR
FALLING AWAY FROM PREVIOUS STANCES BY THE GERMANS.

9. COMMENT: WE CANNOT WHOLLY ACCOUNT FOR MIYAZAWA'S
CANDID INTERVIEW WITH NEW YORK TIMES IN WHICH HE IS
DESCRIBED AS LEVELING SHARP CRITICISM AT U.S. FOR LACK
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OF PRE-SUMMIT LEADERSHIP AND ESPECIALLY ABSENCE OF ENERGY
LEGISLATION. WE DOUBT IT HAD FUKUDA'S BLESSING AND PROB-
ABLY REFLECTS MIYAZAWA'S PENCHANT FOR RUMINATING BEFORE A
RESPONSIVE SMALL AUDIENCE. ON THE OTHER HAND IT REFLECTS

GENERAL FEELING HERE THAT JAPAN IS SOMEWHAT OFF THE HOOK
BECAUSE U.S. IS NOT IN A STRONG POSITION TO MAKE DEMANDS
ON JAPAN.

10. THERE IS AN UNDERSTANDABLE FEELING OF SOME RELIEF IN
JAPAN THAT FUKUDA WILL NOT BE UNDER AS INTENSE PRESSURES
FROM THE U.S. AND OTHER SUMMITEERS AS WOULD HAVE BEEN THE
CASE SEVERAL MONTHS AGO. AT THE SAME TIME WE BELIEVE
FUKUDA HAS A CLEAR VIEW OF JAPAN'S WORLD OBLIGATIONS AND
WILL BE PREPARED TO RESPOND RESPONSIBLY.

11. WITHOUT ENGAGING IN BICKERING WE CAN QUITE PROPERLY
PUT INTO REALISTIC CONTEXT THE RELATIVELY MINOR ECONOMIC
IMPACT OF U.S. INFLATION ON JAPANESE EXPORTS. SIMILARLY
WE NEED NOT HESITATE TO REMIND FUKUDA OF IMPORTANCE OF
CONTINUED JAPANESE PROGRESS ON OUTSTANDING ITEMS FROM
ONGOING U.S.-JAPAN DIALOGUE IN BILATERAL AND MULTILATERAL
FORUMS. WE ARE ALL MORE THAN EVER IN THE SAME BOAT.
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